GGD

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Mayor Of The District Of Columbia

44 ORIGINAL

Improved Billing And Collection Activities Would Increase District Of Columbia's Revenues

Three agencies--Departments of Human Services, Transportation, and Environmental Services--need to take timely, forceful, and persistent action to collect $75 million in delinquent accounts. The District reported that accounts receivable amounted to $269 million on September 30, 1980, and that about 48 percent was not collectible. By taking effective collection actions the District could increase revenue and reduce the amount of delinquent accounts. A District-wide policy is needed to give the agencies guidance in this regard.

GAO/GGD-82-68
AUGUST 6, 1982

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GENERAL GOVERNMENT
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B-203834

The Honorable Marion S. Barry, Jr.
Mayor of the District of Columbia
Washington, D.C. 20004

Dear Mayor Barry:

This report contains recommendations to improve collections of amounts owed to the District of Columbia from various sources, such as overpayments and medical treatment. Using good billing and collecting practices would increase revenue, reduce delinquencies, and result in fewer accounts becoming uncollectible.

Section 736(b) of the District of Columbia Self-Government and Governmental Reorganization Act (Public Law 93-198, 87 Stat. 774), approved December 24, 1973, requires the Mayor, within 90 days after receiving our audit report, to state in writing to the District Council what has been done to comply with our recommendations and send a copy of the statement to the Congress. Section 442(a) (5) of the same act also requires the Mayor to report, in the District of Columbia's annual budget request to the District Council, on the status of efforts to comply with such recommendations.

We are sending copies of this report to interested congressional committees; the Director, Office of Management and Budget; and to each member of the Council of the District of Columbia.

Sincerely yours,

W.J. Anderson

William J. Anderson
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE MAYOR OF
THE DISTRICT OF COLUMBIA

IMPROVED BILLING AND COLLECTION ACTIVITIES WOULD INCREASE DISTRICT OF COLUMBIA'S REVENUES

D I G E S T

Collecting amounts due to the District of Columbia is a continuing problem. On September 30, 1980, District agencies reported that $130 million of $269 million in accounts receivable (excluding amounts due from the Federal Government) were uncollectible.

At the end of fiscal year 1981, three agencies reviewed by GAO had $121 million in accounts receivable, of which $75 million was delinquent. The agencies were not following good billing and collection practices, which may be the reason many accounts were delinquent and why many were declared uncollectible. Because delinquent accounts often become uncollectible accounts, it is important for the agencies to follow good billing and collection practices. In addition, the District should revise its billing rate for residents treated at St. Elizabeths Hospital. Underbilling will amount to about $5.9 million by fiscal year 1983 unless the rate is changed.

GAO did the work to evaluate District efforts to record, bill, and collect accounts receivable. Because delinquent accounts at the three agencies amounted to $75 million, GAO decided to issue a report on the billing and collection aspect of the work so that the District could take early action to improve collections of funds owed the city.

TIMELY FOLLOWUP AND AGGRESSIVE ACTION IS NEEDED

In many cases agencies took collection action, but it was untimely and inconsistent and they did not provide good documentation of actions taken. The Department of Human Services' Bureau of Payments and Collections and the Department of Environmental Services' Water Revenue Division had $56 million to collect from delinquent accounts in four programs GAO reviewed. Collection actions for St. Elizabeths

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Hospital treatment and food stamp vendor and public assistance overpayments were not pursued promptly after the initial billing. In some cases, months elapsed between collection attempts. Department of Environmental Services' officials told GAO that they had taken action to bill and collect promptly, but the dates of billing and collection actions were not available. (See pp. 4 to 9.)

For Neighborhood and Mental Health Clinic bills, water meter repair bills, and Miscellaneous Trust Fund bills, District agencies sent one bill to debtors without any other followup. Delinquent accounts due the District in 1981 from these programs totaled $2.6 million. (See pp. 10 to 13.)

GAO's review did not cover all agencies, but effective collection action may be lacking in other parts of the District government. District agencies reported that 48 percent of accounts receivable were uncollectible on September 30, 1980. (See pp. 8 and 9.)

COLLECTION OF OVERPAYMENTS IS A CONTINUING PROBLEM

Much more could be done to collect overpayments involving public assistance, personal and home care, day care, and foster care. Since May 1981, the District has not tried to collect from some overpaid public assistance cases, preferring instead to concentrate on preparing cases for the Corporation Counsel. If evidence was not available to justify sending the cases to Corporation Counsel, no action was taken to obtain repayment. In January 1982, the Department of Human Services prepared guidelines which would require collection action on all cases, but the guidelines have yet to be fully implemented. (See pp. 14 to 16.)

GAO estimated that 138 individuals currently being paid for providing care in the personal care, home care, day care, or foster care programs had previously been overpaid about $118,000. In many cases, the Department of Human Services had not received any payments from the individuals and had not offset against current payments to help collect. Department

officials identified some individuals still in the programs by comparing payroll numbers of overpaid individuals with people currently in the programs. They also agreed to compare names and addresses of overpaid individuals with people currently providing care in the programs so that repayment could be made by offset. (See pp. 17 and 18.)

'gencies should use all means at their disposal to collect delinquent accounts. Private firms and public hospitals GAO contacted generally made three or more collection attempts at 30-day intervals or less and followed with telephone calls, sending accounts to collection agencies, and notifying the credit bureau if debts are not paid.

BILLING DELAYS HINDER COLLECTION EFFORTS

Billing delays have not helped the agencies' collection efforts. Since October 1980, the Departments of Human Services and Environmental Services have sent initial bills long after services were provided. A total of $7.6 million for 34,289 bills were involved, primarily from the Department of Human Services.

In the Medicaid program no attempt was made to bill or collect from 351 overpaid inactive medical vendor accounts totaling $253,872. The accounts had been inactive for 6 months or more and had accumulated between 1969 and November 1981. Due to lack of collection criteria, no attempt was made to bill the vendors or collect amounts due since June 1980. (See pp. 22 to 24.)

Department of Environmental Services water meter repair billing efforts also lacked timeliness. At the time GAO checked in January 1982, there were over 1,300 water meter repair bills totaling $313,000 that had not been sent to customers, even though the repair work had been completed as much as 5 months earlier. Lack of staff was the reason cited for not mailing the bills. (See p. 24.)

The District will have underbilled residents treated at St. Elizabeths Hospital by about $5.9 million through fiscal year 1983 if the billing rate is not revised to at least recover costs. The rate being used was based on fiscal year 1979 cost data. The District's costs will have increased by about $5.9 million through fiscal year 1983, but the old rate is still being used. (See pp. 21 and 22.)

Billing delays cause accounts to age, making them more difficult to collect, and debtors will generally not pay until billed. The longer the billing delay the more difficult the collection effort. The District is deprived of the use of these funds and might lose the funds because the accounts become uncollectible.

WRITTEN AND IMPROVED BILLING AND COLLECTION PROCEDURES ARE NEEDED

Part of the reason agencies are not taking timely, aggressive, and consistent billing and collection action is that there are no District-wide procedures which require specific actions. With District guidance and proper implementation, consistent billing and aggressive collection actions should result in increased revenue to the District. (See p. 26.)

RECOMMENDATIONS TO THE MAYOR

GAO recommends that the Mayor direct:

--All agencies to take aggressive, timely, and consistent action to collect all accounts, including sending three collection letters at not more than 30-day intervals, documenting billing and collection actions taken, and notifying the credit bureau when accounts become uncollectible. (See pp. 9, 13, and 14.)

--The D.C. Controller to monitor and periodically test agencies' billing and collecting activities. (See p. 9.)

--The Department of Human Services to attempt to (1) collect from new delinquent accounts and from accounts making some payments before

pursuing collections of old delinquent accounts; (2) implement guidelines to process and pursue collecting overpaid public assistance cases; (3) take aggressive action to collect all overpayments using collection letters, Corporation Counsel, collection agencies, offset, and other means as applicable; and (4) increase rates billed for care at St. Elizabeths Hospital to cover costs. (See pp. 13, 16, 19, and 25.)

--The Department of Environmental Services to send bills promptly so that payments can be made promptly. (See p. 25.)

GAO also recommends that the Mayor provide written policy guidelines that require agencies to develop internal collection procedures.

AGENCY COMMENTS

In response to GAO's request for comments, the City Administrator said that the GAO recommendations to establish city guidelines and standards for billing and collection systems are useful and the city expects to implement them. He said, however, that the city would continue to use a variety of collection methods tailored to fit specific programs. The City Administrator said that the report contains some helpful ideas about collection activities, but he expressed the view that the report was incomplete because it did not deal with all activities. The preponderance of his comments dealt with describing various activities rather than with the specific GAO recommendations. The text of the comments appears in appendix I, and, to the extent provided, specific comments follow GAO recommendations throughout the report.

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ABBREVIATIONS

BPC	Department of Human Services, Bureau of Payments and Collections
DES	Department of Environmental Services
DGS	Department of General Services
DHS	Department of Human Services
DOT	Department of Transportation

CHAPTER 1

INTRODUCTION

District agencies reported that $130 million of $269 million in unrestricted accounts receivable (excluding amounts due from the Federal Government) were uncollectible on September 30, 1980. Because of the large uncollectible amount reported, we reviewed three agencies' billing and collecting activities in 1981. The three agencies reported having $121 million in accounts receivable on September 30, 1981, of which $75 million was delinquent (over 29 days old), and $64 million was designated uncollectible.

District accounts receivable result from a variety of activities, including overpayments to vendors and welfare recipients; hospital services, medical clinic treatments, day care, and foster care; and water and sewer and other miscellaneous services. Related unpaid amounts are recorded as accounts receivable until the bill is either paid or taken out of the accounts as uncollectible. The District does not have uniform billing and collection procedures but could adopt standards such as those promulgated jointly by the U.S. Attorney General and the Comptroller General to require prompt and aggressive action to collect accounts receivable. Under these standards, appropriate written demands should be made upon debtors, informing them of the consequences of failure to pay. Three written demands at 30-day intervals should normally be made, and personal interviews should be held whenever feasible. All collection actions should be documented, and the documentation should be retained in the case file.

EVOLUTION OF BILLING AND COLLECTION PRACTICES

The District's billing and collecting operations have evolved, shaped by the demands of the times, size of operations, and reporting requirements rather than as a result of a systematic, objective process. During the past several years, the District appears to be entering a new phase of its billing and collecting operations which requires improved accountability. For example, the District reported deficits for fiscal years 1979 and 1980, resulting in greater demands on agencies to collect amounts due. Also, Public Law 94-399 dated September 4, 1976, requires that District financial activities be audited annually by an independent auditing firm. These changes mean that agency management of accounts is under closer scrutiny than ever before.

The D.C. Accounting Manual requires that District agencies obtain approval from the Inspector General before writing off uncollectible accounts, i.e., taking uncollectible amounts out of accounts receivable. We were not able to verify that all accounts written off in the past have been approved by the Inspector General because records were not available. A conflicting Department of Human Services' (DHS) procedure, implemented in December 1981, allows write-off approval by section supervisors, branch chiefs, and division chiefs for amounts under $500.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our work was to evaluate the District's efforts to record, bill, and collect accounts receivable. Because delinquent accounts at three agencies amounted to $75 million, we decided to issue a report on this aspect of our work so that the District can take early action to improve collections of funds owed the city.

We did work at 10 District agencies, but billing and collecting issues discussed in this report pertain to only 3 agencies--DHS, Department of Transportation (DOT), and Department of Environmental Services (DES). A large portion of billing and collecting activities for District-generated revenue occurred at these three agencies. We reviewed records and interviewed officials to determine what billing and collection procedures existed, whether bills had been sent, and what type of collection action had been taken. Our work was performed in accordance with GAO's current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

Our review included accounts which resulted from overpayments to food stamp vendors, medical vendors, welfare recipients, home aides, personal care aides, and foster care and day care services. Other types of accounts involved delinquent payments for services provided by St. Elizabeths Hospital, Neighborhood Health Clinics, Mental Health Clinics, and DES water and sewer operations. We also reviewed accounts which resulted from cutting streets to lay telephone, plumbing, electrical, or other lines. For each type of account we determined whether bills had been sent and selected accounts to test the collection activities. Because of the unique arrangement under which the District reimburses St. Elizabeths for care provided to District residents, we also reviewed the per diem rate determination for billing residents to ascertain whether the rate was geared to recover District costs.

We used judgmental sampling techniques in most cases because the agencies did not maintain good data on delinquent accounts. In the one case where we could use statistical sampling, DHS overpaid certain people who served as aides or provided foster care or day care services. We used statistical sampling to estimate the number and dollar amount of cases where overpaid individuals had not repaid the District or were not making regular payments but were currently in one of the programs. We selected 200 out of 599 overpayment cases in December 1981. Using a statistical sample with a 95 percent confidence level, plus or minus 5 percent, we estimated that 138 of the individuals were currently in one of the programs where the overpayment occurred.

In other areas, we either looked at all of the available records or took a judgmental sample. We used judgmental sampling in cases where it was not possible to use statistical sampling because of incomplete records, lack of billing, or lack of collection action.

Because the city does not have District-wide collection procedures, we used joint standards promulgated by the U.S. Attorney General and the Comptroller General as a guide to help evaluate whether District agencies were using good collection practices. The standards provide specific guidelines on when and how to take collection actions.

We also contacted three private firms with large annual sales volumes and three public hospitals to determine what practices they followed. In general, the organizations took more than three collection actions on delinquent accounts at 30-day intervals or less and followed up on all delinquent accounts.

CHAPTER 2

AGENCIES NEED TO TAKE TIMELY, AGGRESSIVE, AND CONSISTENT COLLECTION ACTION

At the time of our review, DHS, DOT, and DES were not taking timely, forceful, and persistent action to increase the possibility of collecting funds owed the District. District data showed that, as of September 30, 1981, almost $75 million owed these agencies was delinquent; some of the accounts had been delinquent since 1979, and the agencies had made little effort to collect.

The agencies' collection activity varied by program. Usually agencies took some collection action, but it was inconsistent, generally untimely, and often was not followed up to reinforce the idea that bills must be paid. In some cases agencies sent one bill and took no further action.

If the District is to collect maximum amounts from accounts receivable, prompt and aggressive collection action must be taken. Generally, three appropriate demands at not more than 30-day intervals should be made upon debtors informing them of the consequences of not paying. For example, the agency may consider court action or send the accounts to a collection agency. Personal interviews should be held when feasible, and collection action taken should be documented and the documentation retained. When the agencies decide that amounts are not collectible, the credit bureau should be informed.

UNTIMELY AND INCONSISTENT COLLECTION ACTION CAN CONTRIBUTE TO NONPAYMENTS

The DHS Bureau of Payments and Collections (BPC) and DES Water Revenue Division did not take timely, consistent action to collect amounts due or provide good documentation of billing and collecting attempts. The two agencies had $56 million in delinquent accounts to collect from four programs included in our review. They could have likely increased the amounts collected by following good collection practices and documenting each action taken.

We identified four programs where timely and consistent action was not taken to collect amounts due. The amounts resulted from St. Elizabeths Hospital services self-pay accounts, where the patients rather than insurance companies or Medicare were responsible for paying treatment costs; water and sewer bills; overpayments to food stamp vendors; and public assistance cases. Recent changes should improve collections in some cases, but action should be taken in all cases to follow good collection practices and increase collections.

Large amounts of St. Elizabeths Hospital accounts are unpaid

DHS reported that $32 million in St. Elizabeths Hospital accounts were delinquent on September 30, 1981. Collection action was taken in some cases, but it was generally not timely or consistent. In some cases DHS sent one bill and did not take other action for many months except to send additional bills for each additional service provided. If payment was not made on an account after three bills had been sent, the account was forwarded to the Delinquent Accounts Section for followup.

St. Elizabeths Hospital is located in the District of Columbia but is operated by the Federal Government. The District reimburses the Federal Government a predetermined amount for city residents treated at St. Elizabeths Hospital and then attempts to collect for the services from patients and insurance companies. Under the District's Public Law 89-183, relatives are responsible for the cost of St. Elizabeths Hospital care when patients cannot pay and do not have private insurance or Medicare. A significant number of patients treated at St. Elizabeths do not have Medicare or private insurance. In some cases relatives do pay for the cost of care; in other cases, according to DHS officials, former patients return to a normal life and pay their bills. If relatives or former patients are able to pay but do not, the accounts could be referred to a collection agency for collection and the case reported to the credit bureau.

BPC's accounting section is responsible for initial billing and collection of St. Elizabeths Hospital accounts, but collection policies varied within the section. The accounting supervisor said that the section sent bills to self-pay patients with each new charge. Thus, if a patient received treatment during one month and did not have other treatment for 6 months, the accounting section did not attempt to collect other than sending the initial bill.

One of two accounting clerks responsible for billing followed the policy described by the accounting supervisor. The other clerk sometimes sent additional bills even if new services had not been provided. She said additional bills were not sent in every case because she did not have time. We attempted to verify this clerk's collection action by reviewing the ledger cards she maintained, but collection information was not on the cards.

We selected 20 delinquent account case files to verify DHS' collection action. Of the 20 cases, 2 accounts had been billed once, 2 twice, and 6 three or more times. No collection action was shown in the files for the remaining 10 cases.

If DHS does not receive payment after sending three bills, the accounts are generally assigned to the Delinquent Accounts Section for followup. However, the elapsed time between the

accounting section's last collection action and the date the case is received in the Delinquent Accounts Section was excessive. Information on elapsed time was available for nine cases. In only one case was the action timely. In four cases it took from 2 to 6 months after the last collection action to send the case to the Delinquent Accounts Section and in four cases it took over 34 months.

DHS automated the St. Elizabeths Hospital billings and sent the first bills under the new system in December 1981. DHS officials said that under the new system, after sending the initial bill, they plan to send two additional requests for payment at 30-day intervals if the bills are not paid. After the final request for payment, the Delinquent Accounts Section will follow up to collect unpaid amounts with other collection action such as telephone calls or letters. Because the bills were just sent in December, we do not know whether the problems described in this section have been solved. However, as of March 16, 1982, DHS had not sent the first request for payment of delinquent accounts resulting from bills mailed in early December 1981.

DHS officials said that they do not notify the credit bureau if debts are not paid. Private firms and public hospitals we contacted said that they took aggressive, timely collection actions; if debts are not paid, they notify the credit bureau. If DHS notified the credit bureau when accounts become uncollectible, a penalty would result from nonpayment and should encourage debtors to pay.

Problems continue with water and sewer accounts

DES' Water Revenue Division had 27,432 delinquent accounts outstanding totaling $20.2 million as of November 30, 1981. According to a DES official some of the commercial accounts were about 5 years old. The official said that in addition to an initial bill, two followup requests for payment are sent to collect delinquent accounts. For customers with four units or less, water services are discontinued after the final request for payment. We could not verify the action taken because the computer did not record the dates billing and collection action was taken. Available data showed that liens were placed or about to be placed on only 752 of 5,829 delinquent commercial property accounts.

The city has had a continuing problem with its water billing system. More than 2-1/2 years ago DES attempted to resolve the problem by computerizing its system for water accounts. However, many of the manual records were inaccurate, resulting in inaccurate computer records. Without good data, it is difficult and time consuming to collect overdue accounts.

We reviewed files and collection letters and discussed billing and collecting, water cut-off, and lien actions with DES officials. The dates DES took billing and collection action were

not available on residential accounts, which comprise about 79 percent of the delinquent accounts. As a result, we could not determine whether DES took timely collection action. A DES official said that the computer billing system had not been designed to record such information but that changes would be made shortly to record and store the information in the computer.

We also reviewed files where lien action had been taken or was in process on delinquent commercial property cases that were up to 5 years old. At the time of our review, DES had placed 147 liens on properties because of unpaid water bills. Another 605 accounts were in the process of having liens placed. DES lien action includes two notices which are sent to the property owners or managers at regular intervals before the liens are placed on the property. Most of the lien actions were initiated during the summer of 1981.

If DES continues its current efforts at regular and followup billing, cutting water off, and placing liens on property, substantial progress should be made in reducing the number and amount of delinquent accounts. The agency needs to promptly complete its project to accumulate billing dates for each account. Billing dates are needed to provide information to customers and to provide backup data for court actions.

Lengthy delays in collecting from food stamp vendors

The Food Stamp Program is another area where timely collection action has not been taken. In April 1981 we issued a report to the Mayor which identified weaknesses in collecting $2 million in shortages attributed to food stamp vendors. We recommended that DHS adopt a policy to consistently offset shortages against transaction fees earned by the vendors. As of early December 1981, DHS had designated several of the large inactive accounts uncollectible or submitted them to the Corporation Counsel. However, DHS had not taken action to recover overpayments from active vendors although an official assigned to the program assured us that he was preparing a collection letter. After formal notification of a longstanding problem, DHS should have taken timely collection action. Inaction contributes to nonpayments and makes accounts more difficult if not impossible to collect.

We analyzed the food stamp vendor balances and noticed that 19 vendors (excluding DHS and senior citizen outlets) owed the District money ranging from $9 to over $300,000. In 4 cases (representing 3 of the 19 vendors) DHS had not taken timely action to collect or follow up on delinquent amounts due the District. For example, in one case, a credit union had not made a payment since July 15, 1981, on a balance due of $171,123; but DHS had not followed up to obtain payment as of December 16, 1981. In another case a single letter had been sent in 1978 to a bank to collect $617.75. Payment was not made, and according to a DHS official no other action had been taken. Such inaction

contributes to continuing nonpayments. We discussed the food stamp vendor collections with DHS officials, who said that the person responsible for the food stamp vendor accounts would be required to follow up and collect delinquent payments at regular intervals.

More timely action needed to collect public assistance overpayments

BPC is responsible for collecting 627 overpaid public assistance cases amounting to $1 million. Although BPC attempted to collect, the actions were not always timely. For example, we analyzed the collection action on 30 cases from BPC's Special Accounts Section. In 12 cases it made only one attempt to collect. The Special Accounts Section attempted to collect more than one time on 18 cases, but the elapsed time from one attempt to another in 17 cases was over 30 days. In 11 cases the elapsed time from one attempt to another was over 6 months. Collection action should be timely and consistent to obtain the best results for the effort expended, and the unpaid cases should be reported to the credit bureau.

Overpaid recipients are responsible for repaying the District. When repayments are not made the cases could be referred to a collection agency or the credit bureau so that a record of payment would be available to creditors in the future. A private collection agency told us that it does receive referrals involving welfare recipients and welfare recipients receive credit and have credit cards. A report to the credit bureau and referral of cases to a collection agency could affect the recipients' future use of credit and could provide the incentive for the recipients to pay their debts.

Until May 1981, the DHS Office of Inspection and Compliance Court Referral Branch obtained repayment agreements from overpaid public assistance cases. After the branch negotiated an agreement, it was sent to BPC for monitoring and collection if payments were not made. In May, the Court Referral Branch discontinued sending cases to BPC because the Branch did not have staff to negotiate agreements and adequately prepare cases for prosecution by the Corporation Counsel. BPC is still responsible for collecting from those cases already received. We discuss public assistance overpayments in more detail on page 14.

Accounts in other District agencies may be delinquent

Our review did not cover all agencies, but effective collection action may be lacking in other parts of the District government. As an example, the Department of Finance and Revenue reported over $18 million was uncollectible on September 30, 1980. District-wide, agencies reported that accounts receivable totaled $269 million on September 30, 1980, and that about 48 percent, or $130 million, was uncollectible. Accounts become uncollectible

if aggressive, timely, and consistent collection action is not taken. Private and public firms we talked with emphasized that timeliness and forcefulness are important to show debtors that payments are expected. The District's collection experience could be improved by adopting a similar policy.

CONCLUSIONS

Debtors cannot be expected to be diligent about paying delinquent accounts if the District does not use forceful, timely, and consistent action to pursue delinquent accounts. Eight months without action after being formally notified by us of a longstanding problem on recovering food stamp vendor overpayments is too long. Private firms and public hospitals we contacted said that they took immediate forceful action to collect amounts due; if amounts were not paid, they notified the credit bureau. For missed payments, overpayments, shortages, and the like, agencies should start collection action within 30 days and continue at not more than 30-day intervals until the accounts are either paid or determined to be uncollectible. When accounts are declared uncollectible, all agencies should notify the credit bureau so that there is a penalty associated with not paying District bills.

RECOMMENDATIONS

We recommend that the Mayor require that all agencies:

--Take timely, consistent action to collect all accounts.

--Document billing and collection actions taken on each account.

--Notify the credit bureau when accounts become uncollectible.

We also recommend that the Mayor require the D.C. Controller to monitor and periodically test agencies' billing and collecting activities to make sure that timely action is being taken.

AGENCY COMMENTS

By letter dated June 18, 1982, the City Administrator commented on our draft report. (See app. I.) He did not comment specifically on each of our recommendations either in this section or in the remainder of the report, nor did he disagree with any of them. He advised that the recommendations as they applied to water bill collection procedures would not be implemented until the city is satisfied that the data base is sufficiently accurate. He also stated that collection of food stamp vendor debts was pursued vigorously and that a settlement of $242,000 represented a cost-effective solution to a persistent problem.

He commented only in passing about public assistance overpayments and about delinquent St. Elizabeth patients, pointing out that the city was concentrating on major installations of automated payment systems designed not only to improve overall operations, but to prevent overpayments at the front end.

The logic of the city's position on not documenting water and sewer billing actions is not clear. There is no argument that bills should be accurate or that the District is working toward improving the accuracy of water and sewer bills. However, once a bill has been rendered to a customer (and the District is rendering thousands of such bills) and the bill becomes overdue, it is imperative that the city know when the bill was sent in order to initiate further collection actions. Accordingly, we continue to believe that billing and collection actions should be documented.

The City Administrator's reference to the $242,000 settlement for food stamp vendor shortages, although applicable in part to our recommendation on page 14, is being dealt with here because the circumstances surrounding that settlement relate directly to the issues discussed in this section of the report. First, let us agree that the $242,000 settlement represented a solution to a persistent and longstanding food stamp vendor collection problem. The District's claim in this case was for $490,000 for shortages, some of which occurred in 1975 or earlier, but the record is not clear in that regard. Suits against three vendors were filed in June and August, 1980. Data available shows that the Mayor agreed to the $242,000 settlement in May 1982. Among the several reasons cited for settling the claim for $242,000 were

(1) concerns that the statute of limitations could bar claims against two of the defendants,

(2) lack of sufficient documented proof of the shortages, and

(3) failure to mitigate losses by not conducting audits earlier.

The issues involved in settling for the lower amount were timeliness, consistency, documentation, notification, and monitoring, which are the very issues we address in our recommendations.

AGGRESSIVE COLLECTION ACTION REQUIRES MORE EFFORT THAN SENDING ONE BILL

Sending one bill to a debtor without any other followup is neither aggressive nor timely action and does nothing to encourage debtors to pay delinquent accounts. At three agencies the one-bill system was being used in four programs. Delinquent amounts due the District in 1981 from these four programs totaled

$2.6 million. Part of the reason the accounts were delinquent is that the agencies sent only one bill in many cases; in other cases, they sent additional bills, sometimes months apart, only when there were additional charges.

Under the one-bill system, a single bill is sent to a client each time services are provided. The problem with the one-bill system is that if a client does not incur additional charges for months or not at all, nothing is done to collect the amount owed. District agencies did not generally follow up if bills were not paid unless they provided additional services. If they provided additional services, agencies sent another bill showing additional charges as well as unpaid charges. Most private and public firms we talked with send initial bills, reminder notices, delinquent letters, and report unpaid amounts to the credit bureau regardless of the size of the account to show they are serious about collecting. The District should use a similar system.

For years only one bill sent to Neighborhood and Mental Health Clinic patients

The only action DHS took to collect amounts due from patients who had to pay for treatment provided at Neighborhood and Mental Health Clinics was mailing an initial bill for each new charge incurred. These bills also listed previous unpaid charges, if any. Between August 1977 and December 1980 the amount billed was $4.3 million. Except for the initial billing, DHS did not take other collection action on these accounts until October 1980, when BPC assigned agents to collect 30,800 delinquent accounts involving $2.5 million. This special project was to collect amounts billed during the period August 1977 through September 1979.

We discussed the Neighborhood and Mental Health Clinic collection system with DHS officials. They said that as of December 1981 DHS plans to send an initial bill and, if amounts are not paid, to send two more requests for payment at 30-day intervals. If this effort is unsuccessful, DHS will send the bills to its Delinquent Accounts Section for followup.

DHS attempted to collect delinquencies arising from the one-bill system for self-pay patients using the Neighborhood and Mental Health Clinics by implementing a special project to collect old accounts. In October 1980, BPC assigned eight collection agents--nearly all of the Delinquent Accounts Section--to a special accounts receivable project designed to collect 30,800 delinquent accounts billed during the period August 1977 to September 1979. The special project was initiated more than 3 years after initial billing in some cases. In order to work on the special project, the Delinquent Accounts Section had to severely curtail its other collection activities, including not accepting additional delinquent accounts from other sections and not attempting to collect from other delinquent payers. As of November 4, 1981, DHS had collected $145,848 of the $2.5 million outstanding.

DHS should have established priorities in this case because it had over 30,000 delinquent accounts which needed followup. It was not possible for the Delinquent Accounts Section to follow up on all delinquencies at one time because it did not have enough collection agents. DHS should have followed up first on current delinquencies and on accounts where payments were being received in order to maximize collections. As time permitted, old accounts should have been put into the process. Using this system, DHS could have obtained the highest return for the effort expended.

As a rule, accounts become more difficult to collect with age. Private firms and public hospitals we contacted generally took action to collect on unpaid accounts within 30 days after billing; DHS should do the same. While DHS concentrated on collecting old accounts, new accounts were aging and were likely becoming more difficult to collect. By concentrating on old accounts, DHS minimized rather than maximized its collections. We discussed the project with DHS officials, and they agreed to study the advantages of prioritizing future collection efforts and, where possible, to try to collect newer accounts first.

Followup needed on Miscellaneous Trust Fund and water meter repair bills

Two other programs in which agencies send only one bill and take no other followup action are the DOT Miscellaneous Trust Fund and DES Water Meter Repair Program. In both cases, agencies sent one bill and did not generally follow up to determine whether the bills were paid or take any other collection action. Personnel responsible for the billing said that they did not have time to follow up to make sure that the billed amounts had been paid.

The DOT Miscellaneous Trust Fund had $1.4 million in accounts receivable at September 30, 1981, from cutting streets to lay telephone, plumbing, electrical, or other lines. Of this amount, $1.2 million was over 1 year old. The person responsible for maintaining the Trust Fund records stated that because of the lack of time she sends only one bill and makes no other attempt to collect if the bills are not paid. In fiscal year 1981 she billed $5,043,236 and collected $4,523,475, which left $511,034 uncollected at year end. Of this amount $371,000 was current (30 days or less old), $130,000 was over 30 days old, and $10,000 was 60 days old or older.

DES also sends only one bill to its water meter repair customers. At the time of our initial contact DES had not taken any other action to collect the unpaid bills. After our initial contact in June 1981, DES sent one letter to collect fiscal year 1981 unpaid amounts. The person who sent the letter said it was a one-time effort and that the response to the letter was good. During fiscal year 1981, DES sent $359,433 in water meter repair bills and collected $210,534. As of September 1, 1981, $51,756

was outstanding for less than 30 days and $97,143 was outstanding for 30 days or more. As of January 20, 1982, about $89,000 was still outstanding according to a DES reply to our inquiry. The person responsible for sending the bills and maintaining a log book of paid and unpaid amounts said that he did not have time to follow up to collect unpaid amounts. We discussed the lack of collection action with the Director, Water Revenue Division, and he said the water meter repair billing and collection activity will be moved shortly to the credit collection department where timely, aggressive, and consistent action will be taken to collect.

Regardless of the amounts, collection action should be taken consistently on all accounts until paid or declared uncollectible. Without some type of collection action, such as telephone calls or letters, it is unlikely that all or even a significant number of these bills will be paid. During 2 of the past 3 years, the District has reported large annual deficits resulting in service cutbacks and layoffs to conserve funds. To help minimize recurrence, District agencies should attempt to collect all outstanding debts.

CONCLUSIONS

Sending one bill is not a timely, aggressive, and consistent collection action. It is important to create a general attitude that when bills are not paid when due the District will take action to obtain payment. In order to show debtors that the District is serious about collecting, agency collection action must include more than sending one bill. After an initial bill is sent and payment is not made, prompt followup is needed--at least three letters at not more than 30-day intervals requesting payment and informing debtors of the consequence of not paying. If bills are unpaid after agencies have completed these and other actions it considers appropriate, the debtors should be reported to the credit bureau. The District should also maximize its collection efforts by concentrating on new delinquent accounts and active accounts where payments are being made before older accounts are pursued. Generally, collection results are better with newer accounts.

RECOMMENDATIONS

We recommend that the Mayor require:

--DHS, DES, and DOT to follow up on delinquent accounts by taking aggressive collection actions which include at a minimum sending three collection letters at not more than 30-day intervals.

--DHS to maximize its collection efforts by collecting new delinquent accounts and continue collection action on those making payments and pursue collection of old delinquent accounts as time permits.

Similarly, the Mayor should make sure that other agencies not covered by our review take aggressive collection action to collect all outstanding delinquent accounts.

AGENCY COMMENTS

The City Administrator did not comment specifically on our recommendation to maximize collections by prioritizing collection efforts so that old delinquent accounts are pursued as time permits with priority given to more current accounts. He did say that while the recommended series of 30-day notices is often an effective collection method, the city believes that different programs may be more effectively managed in other ways. He cited two examples as collection tools specific to a particular program: the street-cut program discussed on page 12 of the report and the food stamp vendor issue discussed on page 7. The City Administrator said the fact that only $140,000 of $5 million was delinquent (30 days old or older) was an indication that the program was working well. Our report showed that over $500,000 was outstanding at year end, and $140,000 of that amount was delinquent at that time. More importantly, the amount of delinquencies could increase because the personnel responsible for collecting these amounts had sent only one bill and had no idea, at the time of our field work, who had paid, or who still owed, and had no plans to send followup bills. We remain of the opinion that this system does not constitute a good billing and collection system, and the other available remedies cited by the City Administrator are useless unless personnel responsible for billing and collection are aware of who still owes the District money and how long the amounts due have been outstanding.

With respect to the food stamp vendor issue, although the City Administrator's reply does not specify which vendor was involved or how long the delinquency had been outstanding, our information shows that some part of the delinquency would have been due since at least 1975, and that the amount involved was included in our 1981 report on the District's food stamp program. Collections in June 1982 on a receivable as old as the one in question does not constitute aggressive collection action. Although we commend the District for its perserverance in this case, we believe that timely, aggressive action could have resulted in much more timely collections. Accordingly, we believe that our recommendations continue to have merit.

NO COLLECTION ACTION TAKEN IN SOME CASES

About 3,300 overpaid public assistance cases totaling $2 million were processed through DHS's Office of Inspection and Compliance in fiscal year 1981. Personnel analyzed the cases and sent some to the Corporation Counsel for possible prosecution, held some for processing decisions, and sent the rest back to their origin, the Income Maintenance Administration. An Office of Inspection and Compliance official said that they did not attempt to collect because they did not have enough staff to take

collection action and adequately prepare the cases for court. In February 1982, the office was still holding cases while working out a processing agreement with the Corporation Counsel.

Public assistance overpayments are made by the DHS Income Maintenance Administration. The overpayments occur for several reasons, such as a recipient claiming unauthorized dependents or not reporting income. When the Administration discovers an overpayment, a form is prepared describing the facts and is then sent to the Office of Inspection and Compliance for action, including verification of the overpayment.

Currently the Court Referral Branch in the Office of Inspection and Compliance reviews all new overpayment cases received from the Income Maintenance Administration. If there is enough evidence, the staff prepares the cases for Corporation Counsel. According to the Chief of the branch, assembling evidence is a time-consuming process.

The Court Referral Branch Chief said that prior to May 1981 some attempts were made to collect overpayments and to obtain repayment agreements from those who were overpaid. We selected 30 of those cases for review. We found data for only 15 cases, and although collection attempts were not timely and generally involved only one or two attempts, this effort resulted in repayment agreements in 13 of the 15 cases.

In May 1981, the Office of Inspection and Compliance stopped trying to collect overpayments and concentrated on preparing cases for Corporation Counsel. The office sent some cases with insufficient evidence or with an amount under $100 back to the Income Maintenance Administration. It held other cases amounting to between $100 and $999 while attempting to obtain an agreement with the Corporation Counsel to process the cases for restitution.

Prior to October 1981, according to an Income Maintenance Administration official, the Administration had no authority to take collection action on accounts sent back by the Court Referral Branch. As of October 1981, the Administration was allowed to obtain repayments by offsetting a portion of the amount due against current payments. As of February 3, 1982, the Office of Inspection and Compliance was still holding cases involving individuals no longer on public assistance while trying to reach a firm agreement with the Corporation Counsel on processing the cases.

Because of the number of cases received for followup and the amount of time it took to adequately prepare cases for Corporation Counsel, the Chief of the Court Referral Branch said that there was not time to collect, obtain repayment agreements, and prepare cases for Corporation Counsel. We suggested that the Branch analyze its case load and develop criteria for sending only certain cases to the Corporation Counsel. Also, we suggested that DHS develop a system for making timely attempts

to collect from those cases which do not meet the criteria for sending to the Corporation Counsel. If necessary, DHS should use collection agencies to help collect as the DHS Student Loan Program and D.C. General Hospital do.

In January 1982, the Office of Inspection and Compliance Chief provided us with proposed guidelines for the recovery of overpaid public assistance cases. The guidelines contain a description of how cases will flow through the Office and criteria for selecting cases to be sent to the Corporation Counsel. They also describe who will take action to collect the overpayments. If DHS implements the new guidelines and the Income Maintenance Administration applies offsets to collect from individuals still receiving public assistance, collections should increase significantly.

CONCLUSIONS

More collection action is needed prior to the Office of Inspection and Compliance sending its overpayment cases to the Corporation Counsel. When determined appropriate, repayments should be sought. Collection letters and referrals to collection agencies along with Corporation Counsel should be considered as a means of obtaining timely repayments. Implementation of the proposed guidelines should help the Office of Inspection and Compliance handle the large volume of cases more effectively, prevent excessive growth of uncollectible accounts, and increase collections.

RECOMMENDATIONS

We recommend that the Mayor, within the framework of his statutory authority, and as appropriate, require DHS to:

--Attempt to collect all overpaid public assistance cases using collection letters, Corporation Counsel, collection agencies, offset, and other means as applicable.

--Implement guidelines to assist the Office of Inspection and Compliance in processing and collecting overpaid public assistance cases.

AGENCY COMMENTS

The City Administrator said the city was using offsets to collect overpayments (see p. 20) and that the city has explored the usefulness of contracted systems which do not cost the city advance dollars but which clean up backlogs and maintain a high collection rate. The City Administrator gave several examples of current DHS use of collection agencies but did not indicate whether such actions would be extended to public assistance cases. He did not comment further on the issues discussed in this section or the related recommendations.

AGGRESSIVE ACTION AND COORDINATION COULD ASSIST IN RECOVERING OVERPAYMENTS

From the early 1970s through 1981, the overpaid balance due DHS from people providing personal or home care for needy families and day care or foster care homes is about $261,381. The amount repaid would have been much greater if DHS had obtained repayments by offset from current amounts due to overpaid recipients who remained in the programs or who left the programs and returned later. Generally, overpayments occurred because DHS continued making payments after the individuals stopped providing services to the District. Sometimes the payments continued for as long as a year after the services were stopped.

Using statistical sampling, we estimated that as of December 31, 1981, 138 overpaid individuals were participating in DHS programs and were being paid by the District, but most were not repaying the overpaid amounts. The District could have used offset to obtain repayments in these cases, but this was not done. We estimated that outstanding overpayments to these 138 individuals totaled $118,000.

The overpayments occurred in four DHS programs--In-Home Support, Day Care Services, Foster Care, and Personal Care Services. When either the BPC's Payroll Branch or the programs' personnel discovered that an overpayment had occurred, an overpayment notification was prepared and sent to BPC's Special Accounts Section. The Special Accounts Section is responsible for taking collection action and receiving payments. In most cases the section sent collection letters at regular intervals in attempting to collect.

The Special Accounts Section was not aware that some overpaid individuals were currently in one of the programs. Program officials were not aware that the overpaid individuals were not making any effort to repay the amounts due. The primary reason for the communications breakdown is that no mechanism was available to coordinate the collection effort with program administration. Also, the collection agents did not use all means at their disposal to make collections.

The DHS collection agents did not report their collection results to program officials and did not have or use various computer runs, prepared for program officials, which show who is currently receiving checks from the four programs. Program officials did not flag or specially mark overpaid workers' case files that we reviewed or attempt to establish formal communications to make sure that overpayments were recovered. Some program officials said they did not mark the files because they assumed that BPC was taking adequate collection measures.

We discussed the advantages of marking the case files with program officials. For example, using a different colored file jacket or some other scheme would help identify those workers

who left the program and reentered at a later date. The marked case files would alert officials that an overpayment had been made so that when an individual returned to the program arrangements could be made to withhold future payments.

We examined selected case files to determine reasons for the overpayments. In most cases, DHS continued payments for up to 1 year after the individuals' services were terminated because documents which would have stopped payments were either not submitted or were lost. In-Home Support and Day Care had 9 overpayments since 1980, and the other two programs had 104 during the same period. For the latter two programs, changes in the pay systems already planned, or undertaken as a result of our discussions, should reduce the number of overpayments made each year.

We discussed collection action which could be taken with DHS officials. The officials took immediate action to identify overpaid cases by taking payroll numbers of overpaid individuals from the overpayment notification and comparing them with current payroll numbers. This action should identify many of the overpaid individuals; however, DHS needs to make sure that individuals who left the programs and came back did not obtain a new payroll number upon return to active status. This happened in some cases. To help with the comparison in the future, the overpayment notification should contain the overpaid individual's social security number. Social security numbers could then be used to positively identify overpaid individuals who reenter the programs.

Because social security numbers were not available on the overpayment notification, we compared names and addresses of overpaid individuals with current payroll names and addresses. There were many cases where names and addresses were the same and cases where names were the same but addresses different. For the latter cases, we found that some of the individuals had the matching address at the time the overpayment occurred.

Periodically, at least once each year, the collection agents should compare names and addresses from payroll data with similar data for overpaid individuals who are not making an effort to reimburse the District. Those overpaid individuals who have reentered the program should be required to designate a certain amount of future pay to be withheld until the overpaid amount has been repaid. In addition to the action taken already, DHS officials said that they would compare names and addresses and other information such as social security numbers to make sure all overpaid individuals still in the system are identified and repayments started through offset.

CONCLUSIONS

Uncollected overpayments reduce available District resources. When overpayments do occur, aggressive action should be taken to obtain restitution, including offset against future District payments when possible. The District has an opportunity to collect

thousands of dollars outstanding from past overpayments by simply offsetting against amounts due to workers currently receiving payments from the District. Requiring repayments, in whatever manner, should discourage individuals from accepting future payments they have not earned. Reporting social security numbers of overpaid individuals on overpayment documents would help collection agents identify those who leave programs and reenter at a later date.

RECOMMENDATIONS

We recommend that the Mayor direct DHS to:

--Collect overpayments through offset from those individuals who have been overpaid in the past and who are again providing services and receiving pay from the District.

--Include social security numbers on future overpayment notifications to make identification easier should overpaid individuals leave the programs and return later.

--Compare now, and periodically thereafter, names and addresses of overpaid individuals with the computer payroll to identify those who left the program and reentered under a different payroll number.

--Require BPC's Payroll Branch to forward a copy of each overpayment notification it prepares to applicable program officials.

--Require officials in Personal Care Services, In-Home Support, Day Care Services, and Foster Care to (1) flag case files of overpaid workers using a color scheme or other system to readily identify those who have received overpayments; (2) execute an agreement to withhold amounts from future pay when overpaid individuals reenter the programs (if they will not sign an agreement, do not let them reenter the program); and (3) notify the collection agents when overpaid individuals reenter the programs.

AGENCY COMMENTS

The City Administrator said that, as our report suggests, DHS is matching rolls so that overpayments in one program can be offset by a schedule of repayments from another. The city's response did not comment on the remainder of the issues involved nor on the five specific recommendations listed above. These recommendations are designed to make offset easier and to include a greater number of offset opportunities than the city's current system.

CHAPTER 3

BILLING PROBLEMS HINDER COLLECTION EFFORTS

Amounts owed the District are generally not expected to be paid until an initial bill has been sent; therefore, timely billing for services provided is essential. For St. Elizabeths Hospital and other accounts, DHS sent initial bills up to 14 months after it provided services. DES had similar problems in the Water Meter Repair Program, where it sent bills up to 5 months after providing service. Since October 1980 the agencies sent 34,289 bills totaling $7.6 million up to 14 months after the service was provided. In addition, BPC has not billed St. Elizabeths patients at a rate sufficient to recover the amount that the District pays St. Elizabeths annually for treating District residents. As a result, the District will have under-billed patients about $5.9 million through fiscal year 1983.

Reasons for the untimely bills varied. In one case DHS ran out of blank bill forms and had none to send for months. In another case, DHS stopped taking collection action on overpaid medical vendors in June 1980 because of unresolved problems between the sections responsible for billing and collecting current charges and the sections responsible for collecting amounts due from inactive vendors. DES did not send water meter repair bills promptly because the person responsible for them said that he had not had time to process the bills.

BILLS CANNOT BE SENT UNTIL FORMS ARE AVAILABLE

DHS ran out of blank bill forms in December 1980. As a result, it did not send bills for 14 months to self-pay patients who had to pay for services provided at St. Elizabeths Hospital and for 11 months to self-pay patients using Neighborhood and Mental Health Clinics and to some insurance companies. About 32,953 bills totaling $7.3 million were involved. Administrative and budget problems were the reasons given for not having blank bill forms available.

Because DHS uses thousands of bill forms each year, the cost and reorder time to obtain new bill forms is considerable. In order to keep operations flowing smoothly, the DHS Controller said that BPC, which was responsible for reordering new bill forms, should have reordered at least 6 months before supplies were exhausted. At the time BPC reordered, less than a 3-month supply was on hand. DHS has a print shop to meet some DHS printing needs. If the DHS print shop cannot handle a printing job, it is sent to the Department of General Services (DGS) print shop. In the instant case, the job was ultimately sent to the DGS print shop.

Several DHS officials informed us that BPC submitted a printing request for the bill forms in early October 1980. By December 1980, DHS was out of bill forms and in checking, officials discovered that the October request had been lost. BPC prepared a new request on January 6, 1981, and sent it forward. The DHS printing shop received the new request on February 26, 1981.

The second request remained at the DHS printing shop until June 1981. The DHS Printing Shop Chief said that under the District's automated accounting system, DHS must enter budget modifications into the system each year to transfer funding authority from DHS to DGS. Until the budget modification has been approved and processed and the DHS printing shop has been notified, the Chief said that DHS policy prohibited him from preparing a purchase order requesting DGS to do the printing.

The DHS Printing Chief said that the new request remained at his shop from February to June 1981 because he was not notified that DHS had processed a budget modification or that DGS had funds available to do DHS printing. We found that over 130 DHS requests for printing, including the BPC bill form request, had been dated June 30, 1981, and forwarded to DGS printing in July 1981.

While the request was at the DGS printing shop, BPC changed the bill form to conform to postal regulations. The changes delayed the form another 11 days. A contractor printed the bills because DGS did not have the equipment to do the work, and DHS received the new supply of bill forms on October 22, 1981. BPC did not use the bills until early December 1981 because the new bill had BPC's new address; BPC moved to the new address in early December 1981 and a DHS official said that the bills were mailed at that time.

We discussed the billing problem with the DHS Controller's Office and the Office of Administration. An official in the Controller's Office said that they were considering making the DHS supply warehouse responsible for reordering bill forms so that future reorders would be part of a forms management program. Under the forms management program, reorders would be made automatically at a predetermined point. Office of Administration officials said that DHS was considering placing a certain amount of budget authority for printing in DGS's budget each year so that the authority for DHS printing would be available at the beginning of the fiscal year and remain available until exhausted.

UNDERBILLING FOR ST. ELIZABETHS PATIENTS COULD COST DISTRICT $5.9 MILLION

DHS has or will have underbilled St. Elizabeths patients about $5.9 million because DHS has not been billing patients at a per diem rate sufficient to recover the amount the District pays St. Elizabeths for District resident care. PPC has been

billing at the rate of $38.39 per day, which was calculated for fiscal year 1979 billings, based on the fiscal year 1979 appropriation for payment to St. Elizabeths. The appropriation has risen since then, but the per diem rate has not risen. Through February 1982 the District had no plans to increase the rate and was estimating the identical appropriation level for payments to St. Elizabeths for fiscal year 1983. Through fiscal year 1983, $5.9 million dollars of cost will not have been billed the patients.

In the past, BPC has adopted the per diem rate that St. Elizabeths established. The $38.39 rate was established by St. Elizabeths' Financial Management Branch for fiscal year 1979 to be charged DHS for the District's patients. According to a St. Elizabeths official, this rate was based on the District's appropriation for payment to the hospital and the estimated patient days for District residents being treated at the hospital. The District is responsible for paying St. Elizabeths for care provided to District residents, but there is an annual limitation on the total amount to be paid; the limitation takes the form of an appropriation specifically earmarked for payment to St. Elizabeths. In turn, the District attempts to collect from residents to recover the District's cost.

BPC is responsible for billing and collecting from District residents who have been treated at St. Elizabeths and it adopted the $38.39 rate for purposes of carrying out this responsibility. For fiscal year 1980 St. Elizabeths changed its costing methods and determined a new rate of $142.60 on the basis of the actual costs of operating the facility. It charged DHS this rate but BPC did not adopt this rate to charge its patients. An official at DHS said that this was not done because if they charged the $142.60 rate, under optimum conditions, they would make a profit, i.e., collect monies in excess of their appropriation. He did not know why the rate had not been recalculated. We believe that the rate charged should be geared to recover the District's costs and that DHS should establish its own system for determining the per diem rate.

MEDICAL VENDOR OVERPAYMENTS AGE WITHOUT BILLING OR COLLECTING ATTEMPTS

DHS overpaid 412 medical vendors a net amount of $902,185 between 1969 and November 1981. Three hundred fifty-one of the vendors owing $253,872 had been inactive for 6 months or more, but collection action was not being taken to recoup the overpayments. Problems within BPC, such as lack of cooperation between sections, were cited as reasons for not collecting.

The Medicaid program, administered by DHS's Health Care Financing Administration, provides medical assistance to the poor. Authorized patients visit certain doctors for treatment and the doctors bill DHS for the service provided. The Federal Government reimburses the District for one-half of the authorized

Medicaid program charges. In the past, DHS paid the doctors' charges on the basis of unaudited bills. As time permitted, auditors reviewed the bills and in many cases disallowed various charges, such as duplicate payments. Because doctors were already paid, after audit many ended up with overpayments. Overpayments were offset against future charges except when a doctor's account became inactive, that is, when a doctor stopped participating in the program. In December 1981, DHS implemented a new computer billing system which analyzes new charges and which has certain controls that should reduce the number of future overpayments, but past overpayments remain a problem.

BPC's Delinquent Accounts Section is responsible for collecting inactive medical vendor overpayments. Prior to June 1980 the Delinquent Accounts Section attempted to collect overpayments but, according to DHS officials, numerous problems such as lack of collection criteria and lack of cooperation between sections made it difficult to collect. For example, an agent would send collection letters and doctors would respond by submitting claims for services not previously billed to the BPC Medical Collection Branch, which is responsible for billing and collecting current accounts. The branch would not inform the Delinquent Accounts Section of the new claims and the section would continue collection action. This often resulted in confrontations with the doctors and often required refunds of amounts collected by the Delinquent Accounts Section. Because of this and lack of collection criteria the Delinquent Accounts Section stopped trying to collect medical vendor overpayments in June 1980 and has not resumed the effort.

We selected 29 medical vendor accounts that were inactive 6 months or more to test DHS collection action. DHS was considering legal action on two of the cases. No collection action had been taken on the other 27 cases according to a DHS official.

The Chief, Office of Health Care Financing, said that the new billing system for medical vendors implemented in December 1981 should prevent many of the overpayments. The new system generally will not accept charges over 30 days old, and all charges are analyzed by the computer before DHS pays them. We noticed that 2 of the 29 vendors whose accounts we reviewed owed the District money under the old system and had enrolled in the new system and received at least one payment. The payments had not been used to reduce the overpayments because the new system was not designed to pick up the old balances.

We discussed the problem with the Office of Health Care Financing Chief who said that changes would have to be made in the new system so that old balances could be incorporated in the new system. Repayments would then be made by offsetting against new charges. We also discussed the need for the Office of Health Care Financing to coordinate billing and collecting activities of current accounts with the Delinquent Accounts Section to avoid duplicate collection actions. One way is for

the Office of Health Care Financing to submit a list of new vendors each month to the Delinquent Accounts Section. Using this procedure a doctor who enters the new system without admitting that he had done business under the old system and still owed the District money could be identified and arrangements made to collect by offset.

We discussed the lack of billing and collection actions on medical vendor overpayments with DHS officials. They said that the Delinquent Accounts Section would resume collection action. We also discussed obtaining repayment by offset with the Office of Health Care Financing Chief. He said that he would take action to recover overpayments by offset from vendors currently in the new system as soon as BPC sends him the information.

BILLS SHOULD BE SENT AS SOON AS WORK IS COMPLETED

The DES mail room had over 1,300 water meter repair bills worth $313,000 that it had not sent to commercial customers. DES had completed the repair work, in some cases, as much as 5 months before. The person responsible said that he had not had time to prepare the bills for mailing. When bills are not sent promptly, payments cannot be made promptly and the District is deprived of the use of that money. In January 1982 we discussed the backlog with the Director, Water Revenue Division, who said that he would assign a team to process the backlog of bills within 1 week. Also, he said the water meter repair billing function would be moved shortly to the credit collection department where one person would be assigned to keep the work current.

CONCLUSIONS

Billing delays are contrary to good financial management, but the District has delayed billing in certain cases. Resolution of administrative and budget problems, adequate communications, and effective monitoring to make sure bills are timely are all essential to a good billing and collection system. The District's system lacked all of these elements. Without a good system, bills were not sent regularly, accounts aged, and the District was deprived of needed funds. In addition, the District underbills residents for treatment at St. Elizabeths and should revise its billing rate to recover costs.

RECOMMENDATIONS

We recommend that the Mayor require DHS to:

--Place the reordering of blank bill forms under a forms management program which will include reordering on a systematic basis so that forms will be available when needed.

--Transfer DHS printing budget authority to DGS early in the fiscal year so that reorders will not be delayed.

--Establish procedures to annually review and adjust the per diem rate charged District residents at St. Elizabeths so that the rate would be geared to recover at least the amounts the District pays to St. Elizabeths.

--Take immediate action to bill and collect inactive medical vendor accounts.

--Transfer outstanding balances from the old medical vendor billing system to the new billing system for those vendors already in the new system and for those vendors with outstanding balances that enter the new system at a later date.

--Require the Office of Health Care Financing to forward monthly lists of new vendors to the Delinquent Accounts Section so that collection attempts will be coordinated rather than duplicated.

Also, we recommend that the Mayor require DES to establish procedures to achieve prompt mailing of bills for water meter repairs.

AGENCY COMMENTS

Except for the recommendation to annually review and adjust the billing rate for District residents treated at St. Elizabeths, the City Administrator did not specifically comment on the issues discussed in this section or on the related recommendations.

With respect to the St. Elizabeths billing issue, he said our recommendations on that point had already been implemented and that the per diem rate for District residents at St. Elizabeths had recently been raised and is now reviewed annually. Available documentation shows that the DHS Controller advised the Chief, Bureau of Payments and Collections, by memorandum dated June 19, 1982, that the per diem rate had been increased from $38.39 to $144.16 and that the effective date for the change was October 1, 1981.

CHAPTER 4

BILLING AND COLLECTION PROCEDURES WOULD HELP GUIDE FUTURE COLLECTION EFFORTS

The District does not have written policies and guidelines which require agencies to establish and follow prescribed billing and collection procedures. Consequently, agencies have been operating without internal written collection procedures and, as discussed previously, have not followed good billing and collection practices. DHS implemented collection procedures in December 1981 that need to be changed for several reasons, one of which is to require collection action on all amounts.

A DISTRICT-WIDE POLICY IS NEEDED

Without District-wide collection procedures, the current collection practices in the agencies have evolved over the years. There is no consistency among agencies or, in some cases, within an agency. Each agency seemingly follows its own course, absent any District-wide guidance. For example, DHS recently implemented collection procedures which do not maximize collection efforts. District guidance is needed so that agencies will develop and use good collection practices.

Guidance should be provided in the form of a District-wide policy which, among other things, should require each agency to develop specific collection procedures to be followed by all agency personnel involved in collections. At a minimum, three written demands should be made for all delinquent amounts at maximum 30-day intervals and all collection actions should be documented. If payment is not made, collection action should terminate by sending the claim to the Corporation Counsel for court action or to a collection agency and by notifying the credit bureau of the debt. The agencies we reviewed which were involved in billing and collecting did not have procedures which would meet the criteria set forth above.

CHANGES WOULD MAKE DHS' PROCEDURES MORE EFFECTIVE

DHS implemented written collection procedures in December 1981, but the procedures need to be changed in some areas to maximize the collection effort. The procedures, which were prepared under contract with a private consultant, do not (1) provide for any collection action other than the initial bill on amounts of $5 or less, (2) include timely followup of the initial bill, or (3) make maximum use of collection agencies. Also, the procedures permit section supervisors, branch chiefs, and division chiefs to approve write-offs without approval of the Inspector General, as is required for most other write-offs in the District.

The following table summarizes DHS' written collection procedures.

DHS' Collection Procedures
Action Required In Relation To Amount Owed
Chronological Sequence From Initial Billing To Final Action

Sequence of action	$5 or less	$5.01 to $15	$15.01 to $50	$50.01 to $500	Over $500
Initial billing	x	x	x	x	x
60-day letter		x	x	x	x
90-day letter		x	x	x	x
105 day telephone call			x	x	x
120-day letter				x	x
150 days (possible internal efforts) (See note a)				x	x
Write-off approval by: (See note b)	section supervisor	section supervisor	branch chief	div. chief	Inspector General
Final action-- send to:	inactive file	inactive file	inactive file	collection agency	Corporation Counsel

a/ Efforts not specified.

b/ A write-off is an agency action which takes uncollectible amounts out of accounts receivable.

The DHS procedures are designed so that the collection effort is in proportion to the amount owed, with certain exceptions. For example, if a section supervisor believes that an amount of less than $5 should not be written off as uncollectible, the case can be put on an exception list and other action taken to collect. In most cases, particularly for the smaller amounts, we assume there will be few exceptions to the standard procedure, particularly since larger amounts have not been collected in many cases.

As indicated by the first line in the table, initial bills will be sent in all cases regardless of the amount owed. However, as further indicated by the first column, the procedures require no further collection action for amounts owed of $5 or less. This policy will encourage people to ignore bills of $5

or less because there is no penalty or action associated with not paying. Some additional collection action should be taken in all cases. In some, three collection actions should be required, and the final action before write-off should be to send the account to a collection agency for collection. Five of six firms we talked with take collection action on all accounts, regardless of size. It is important to take collection action on all accounts so that debtors know bills must be paid.

The procedures do not provide for timely followup action if the initial bill is not paid. As indicated in the second line of the table, DHS will wait 60 days after initial billing before taking any collection action. Followup action should be prompt--taken within 30 days of the initial bill. All firms we talked with wait 30 days or less before sending a reminder that payment has not been received.

DHS procedures provide for using collection agencies to help collect amounts between $50.01 and $500. Accounts that are $50 or less or over $500 will not be sent to collection agencies but will be handled in-house or sent to Corporation Counsel. We believe that collection agencies should be a potential course of action regardless of the amount.

According to the procedures, accounts over $500 will be sent to the Corporation Counsel. We were informed by District officials that in the past the Corporation Counsel has not been able to follow up on all accounts. Therefore, final action for amounts over $500 should be designated for Corporation Counsel or collection agency action. Those accounts which are not taken by the Corporation Counsel could then be sent to a collection agency.

Also, DHS procedures permit the section head, branch chief, or division chief to approve write-offs of amounts up to $500. This means that the division can write off millions of dollars without accounting to anyone. For example, the DHS special accounts receivable project involved 30,800 accounts valued at $2.5 million, which means the average account was about $81. Approval for write-offs is one means of making sure that complete and diligent collection action has been taken to obtain payments of all amounts. Write-off approval should be required at a high level--if not the Inspector General, then some other high official.

The Inspector General's authority for approving write-offs dates back to 1966 and is taken from the D.C. Accounting Manual. Since issuance of this section of the manual there have been many changes in the way the District does business and keeps records, rendering many sections of the manual obsolete. Accordingly, some confusion exists among various District agencies about the applicability of the manual, but the section dealing with write-offs continues to be the only authoritative District-wide

guidance in effect, and the Inspector General continues to review all write-offs requests submitted. The manual states that "At least annually agencies shall prepare lists of uncollectible accounts receivable. The lists shall be sent to the Internal Audit Office." The manual requires the Office of Internal Audit to review selected accounts, determine which are appropriate for write-off, and forward the list of accounts considered appropriate for write-off to the Board of Commissioners. Internal Audit is now the Office of the Inspector General, and the list is now sent to the Mayor. The manual does not exclude any uncollectible accounts, regardless of amount, from approval by the Inspector General. Accordingly, DHS collection procedures should be changed.

The procedures do not provide for reporting uncollectible amounts to the credit bureau. If debts are not paid a penalty should be associated with not paying. We believe notifying the credit bureau of uncollectible amounts would provide this penalty because the individual's use of credit in the future could be limited.

CONCLUSIONS

There are no District-wide billing and collection procedures to guide the various agencies. The District should provide collection guidance to the agencies, including general requirements for collecting overdue accounts. As a minimum, agencies should have to develop internal collection procedures that describe how and when to collect overdue accounts. The procedures should require agencies to send three collection letters to all overdue accounts at not more than 30-day intervals, and the collection actions should be documented. The DHS collection procedures should be changed to require timely, uniform followup on all accounts; use of collection agencies regardless of the amount owed; and approval of all write-offs by the Inspector General or other high District official.

RECOMMENDATIONS

We recommend that the Mayor:

--Provide written guidelines requiring agencies to develop internal collection procedures which include aggressive action on a timely basis, with effective followup, to collect funds due the District.

--Have DHS amend its collection procedures to provide for at least three collection letters on all overdue accounts; to take timely collection action that starts not more than 30 days after the initial bill is sent and continues at not more than 30-day intervals; to use collection agencies regardless of the amount owed; and report unpaid amounts to the credit bureau.

Also, we recommend that the Mayor direct DHS to change its procedures to require write-off approval by the Inspector General or a high District official.

AGENCY COMMENTS

The City Administrator said that he expects to implement our recommendation that there be city guidelines and standards for billing and collection systems but that the city will continue to use a variety of collection methods tailored to fit specific programs. The City Administrator did not specifically comment on the remaining recommendations in this section of the report.

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APPENDIX I

GOVERNMENT OF THE DISTRICT OF COLUMBIA
EXECUTIVE OFFICE

OFFICE OF THE CITY ADMINISTRATOR

ELIJAH B. ROGERS
CITY ADMINISTRATOR
1350 E STREET, N.W. – ROOM 507
WASHINGTON, D.C. 20004

JUN 1 8 1982

Mr. William J. Anderson
Director, U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

On May 17, 1982, you sent to us for comment a draft audit report entitled "Improvements in Billing and Collection Activities Would Increase District of Columbia's Revenues". While this report contains some helpful ideas about collection activities, it is incomplete in several important respects.

I. Omission of Accomplishments to Date

Your major conclusion that three agencies, and by implication the city in general, are "making little effort" to collect debts is not supported by the facts. Your choice of programs to review ignores major new systems already implemented, and significant revenue results already achieved.

We certainly agree with a basic observation of the report that city-wide standards for billing and collection systems are useful. The Controller's Office has been working with agencies to develop such standards, taking account of large differences among programs and agencies. In the meantime, however, a number of important goals have been achieved.

Given the extent of the deterioration of the data base in most city billing systems and the build-up of backlogs, prudent management strategy dictated that this Administration pursue a two-fold strategy: (1) concentration on systems with major dollar payoffs first, and (2) a focus on system changes which would prevent major delinquencies from occurring, rather than focussing on collecting aged accounts. It is our belief that prevention is more cost-effective than continual catch-up.

In the agencies which you reviewed, we have implemented this strategy in these ways:

1. Concentration on programs with major revenue payoff:

a) The Department of Human Services has recouped nearly $15 million in overpayments to institutional Medicaid providers, by aggressive audit and collection procedures.

b) The Department of Human Services has installed a new Foster Care Tracking System which made possible the collection of $10 million new dollars in Federal reimbursements in FY 1981, and a continuing annual collection rate $4 million higher than before.

c) Automation and revision of water bill collection procedures has resulted in the collection of $10 million in delinquent bills to date. It is true that the conversion of those records is still not complete, nor up to the desired level of accuracy. For that reason we have not implemented the collection effort you specify, but will continue to temper it until we are satisfied that the data base on which it functions is sufficiently accurate. And as your report itself points out, the corrective actions are in place and producing results. Furthermore, current billings are now up to date.

d) The Department of Transportation has improved its parking ticket collection program to such an extent that it is considered the best in the nation; it produces more than $19 million in revenue annually.

2. Use of program and agency-specific solutions which give priority to preventing delinquency at the front end

Because there are limits to the cost-effectiveness of pursuing small dollar debts among a population of individuals with limited resources, such as public assistance clients or uninsured patients recently discharged from a mental hospital, the Department of Human Services has concentrated on a major installation of automated payment systems, the Income Maintenance Management System and the Medicaid Management Information System. These installations are designed not only to improve overall operations, but to prevent overpayments at the front end.

It should be noted that the District observes all requirements of Federal regulations in respect to recoupment. We have installed new billing and collection

procedures developed by Price, Waterhouse, Inc. in the Bureau of Payments and Collections. We are also, as your report suggests, matching rolls so that overpayments in one program can be offset by a schedule of repayments from another.

It should also be noted that the per diem rate for District residents at St. Elizabeth's has recently been raised, and is now reviewed annually; your recommendation on that point has already been implemented.

II. Use of Alternative Collection Methods

While the recommended series of 30 day notices and credit bureau referrals is often an effective collection method, we believe that different programs may be more effectively managed in other ways. For example:

a) DOT Miscellaneous Trust Fund

In your discussion of this program for street cutting fees, your own figures appear to indicate that the present system is working quite well: in FY 1981 there was only $140,000 in uncollected revenue more than 30 days old in a program of over $5 million.

In this program several special incentives are available: plumbing contractors are required to put up a deposit in an amount estimated to cover the cost of repaving the street, and if the actual cost exceeds that they are billed for the remainder; contractors who must be bonded to work in this city can forfeit their bond and lose their right to work in the city until their indebtedness is settled. These are examples of collection tools specific to a particular program.

b) Food Stamp Vendors

The collection of delinquent Food Stamp vendor debts was pursued vigorously by the Department of Human Services and Corporation Counsel through administrative and legal action. A settlement was reached this month which produces $242,000 in revenue for the city; again, a cost-effective solution to a persistent problem.

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c) Contract Collection

We have explored the usefulness of new contracted systems which do not cost the city advance dollars, but do clean up backlogs of arrears and maintain a high collection rate.

In September, 1980, we signed a contract to perform billing and collection services for the Emergency Ambulance Service. The collection rate has risen from 8.6% at that point to an average of 47.6 percent in FY 1982 to date. We estimate a collection of close to $1 million in this fiscal year. The contractor is paid on a performance basis from funds collected.

The Department of Human Services expects to replicate the success of this approach in health care billing. They have contracted this system for three health care clinics, and are carefully monitoring the results.

III. Conclusion

In summary, although problems still exist among billing and collection systems throughout the city government, and are in various stages of correction, we are satisfied that tremendous progress has been made on those with the largest revenue impact.

We expect to implement your recommendation that there be city guidelines and standards for billing and collection systems, but we will continue to use a variety of collection methods tailored to fit specific programs.

Sincerely,

Elijah B. Rogers
City Administrator

cc: Alphonse Hill
William Johnson
James Buford
Thomas Downs

(203834)